

In Search of the Silver Lining:

Case Analysis for Mature Market Businesses

by
Timothy I. Panagos

Submitted to

The Alfred P. Sloan School of Management and
the School of Engineering in Partial Fulfillment of
the Requirements for the Degree of

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Signature of Author: _____
Timothy I. Panagos
MIT Alfred P. Sloan School of Management
May 9, 2003

Certified by: _____
Joseph F. Coughlin, PhD.
Principle Research Associate and Director,
MIT Age Lab, Engineering Systems Division
Thesis Advisor

Accepted by: _____
David Weber
Director, Management of Technology Program

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Abstract

The business models of industries addressing consumers over the age of 55 are examined. A 3-D framework: Define, Design, and Deliver is developed to provide an understanding of notable failures in the mature market. Case studies in three sub-industries are used to highlight the negative effects of key influencers on each of the 3-D activities. Documentation from the business press and interviews with industry leaders are used to illuminate issues and seek best practices. The 3-D framework is used to explain mature market failures and to provide practical guidelines to business.

Thesis Supervisor: Joseph F. Coughlin, PhD.

Title: Principle Research Associate and Director, MIT Age Lab, Engineering Systems
Division

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Introduction: Following the Boomers Profit Trail

This thesis explores business practices and strategy designed to respond to consumers over age 55. The market is large and growing, yet the body of business research addressing mature consumers has lagged far behind that for other segments. As businesses attempt to tap into this large, affluent, and receptive market, practices and strategies will evolve in a relative vacuum of research and past trial-and-error. Further complications will result from the assumption that aging baby boomers will behave similarly to their parents. The radical differences in the life experiences and societal expectations of these two groups should create major differences that may not be well understood.

The specific hypothesis to explore regarding aging baby boomers is that the desire for continued independence is, or will become, a driving force in the consumer behaviors of this segment. The psychological underpinning of this need for independent living will be briefly explored and literature review will draw a backdrop against which modern businesses have formed their approach to this market.

From this context, three case studies will explore the product development, marketing, and merchandising strategies of firms across markets. An attempt will be made to draw parallels and to identify best practices with broad industrial application.

Background

What are the relevant demographic trends?

The Mature Market is loosely defined as consumers over the age of 65. 35 million Americans over the age of 65 were counted by the 2000 U.S. Census, 12.4% of the total population. However, the '90s was the only decade in the history of the U.S. census that the 65+ segment grew slower than the population as a whole—12% growth 1990 to 2000 versus overall growth of 13.2%.

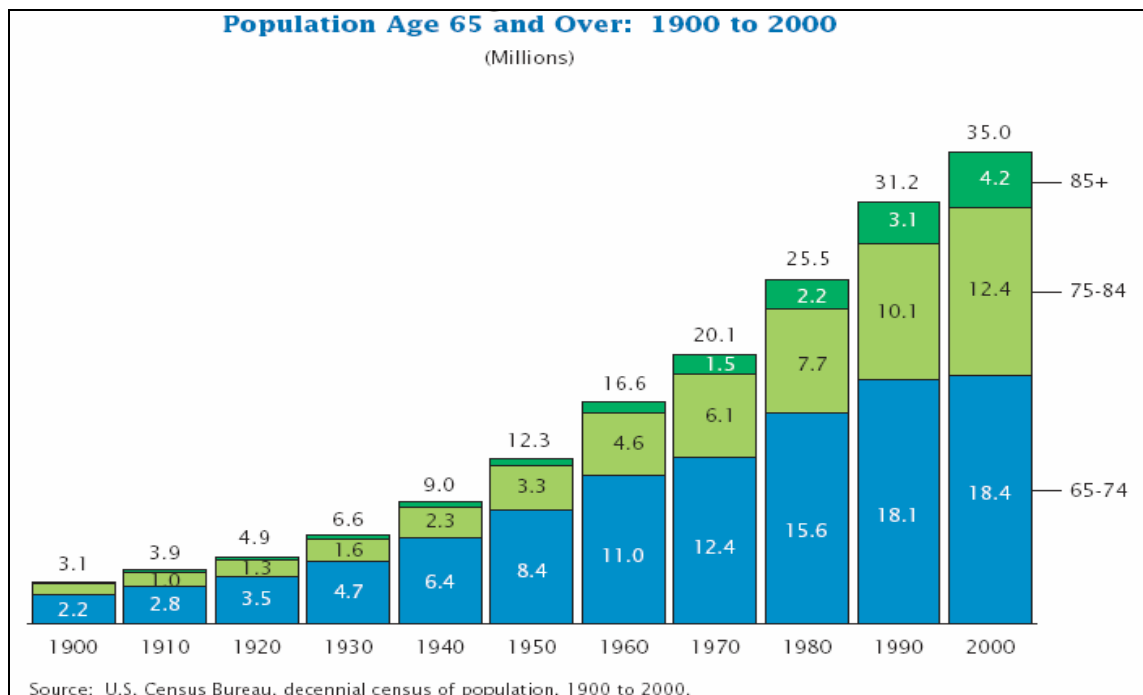


Figure 1: U.S. Total Population Comparisons 1900, 1950, and 2000¹

¹ Source: Hobbs and Stoops, “*Demographic Trends in the 20th Century*”, U.S. Census Bureau, (November 2002).

The slackening growth rate due to low birth rates in the late 1920's and early 1930's is the calm before the storm. The 65+ segment is poised for explosive growth over the next half century. Based on the 2000 census data, the U.S. Census Bureau used conservative assumptions of mortality and immigration to arrive at their middle-series growth projections.

	2010	2020	2030	2040	2050	2060	2070
Total	299,862	324,927	351,070	377,350	403,687	432,011	463,639
65+	39,715	53,733	70,319	77,177	81,999	89,840	97,585
85+	5,786	6,763	8,931	14,284	19,352	20,417	23,156

Figure 2: Middle-Series U.S. Population Projections¹

Their conservative projections for 2040 yield 77 million Americans over the age of 65 and 14 million over 85, accounting for population portions of 20.5% and 3.8% respectively. This impressive growth rate reveals a steep rise in years 2010 to 2030, as shown in Figure 3.

¹ Source: Population Projections Program, U.S. Census Bureau, (2001).

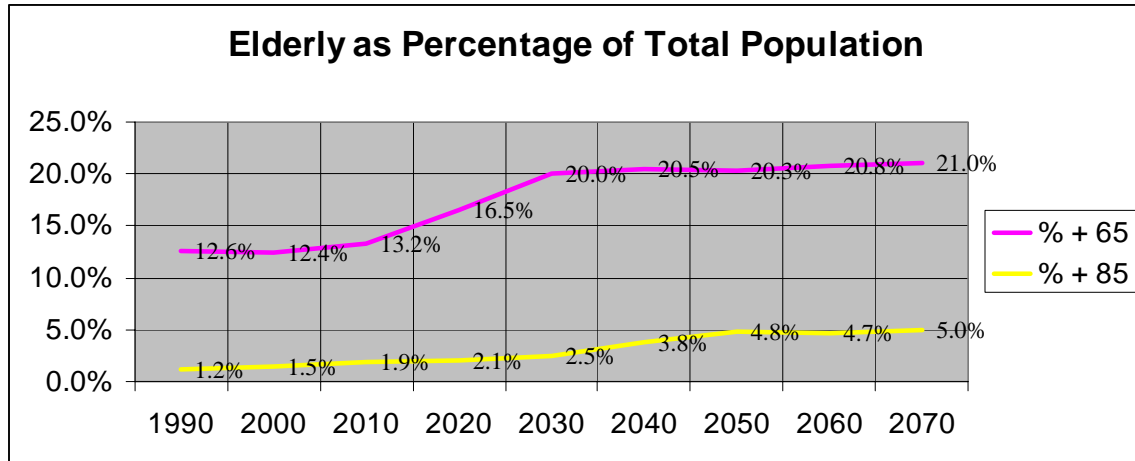


Figure 3: Middle Series Data Projections of 65+ and 85+ U.S. Population¹

But the census projections have been wrong before. The estimates of the year 2000 total population created after the 1990 census fell short by 6 million people (*The Economist*, 2002). Other demographers say that advances in medical science will retard the mortality rates, making the Census Bureau's middle-series estimates invalid. The extreme estimate made by Dr. Kenneth G. Manton, Research Director of the Center for Demographic Studies at Duke University, puts the 85+ population in 2040 at nearly 54 million—six times as many elder Americans as the 14.3 million forecast in the middle series (Kinsella and Velkoff, 2001).

¹ Source: Population Projections Program, U.S. Census Bureau, (2001).

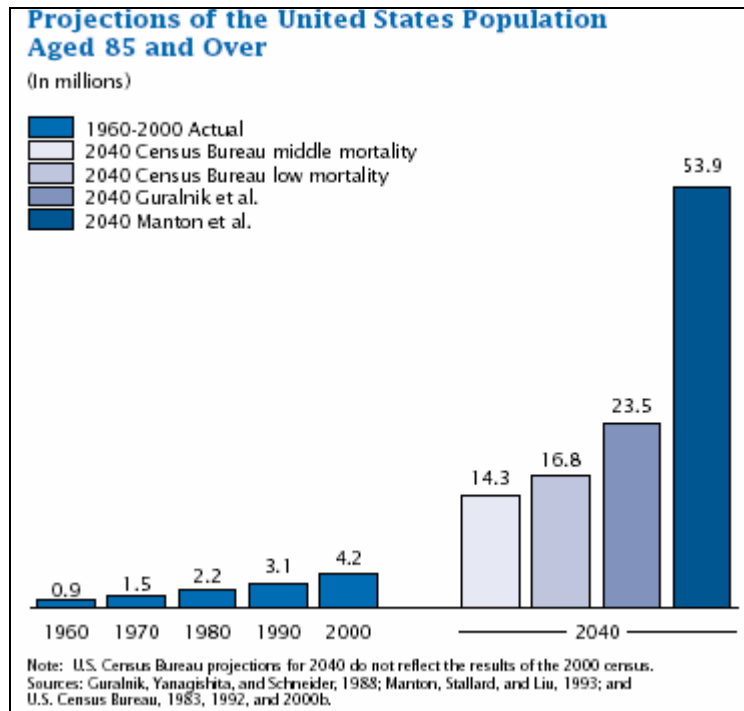


Figure 4: Divergence in 2040 U.S. Population Projections¹

The demographic bubble resulting from the baby boom has two sides. On the leading edge of the bubble, boomers are steadily aging, causing the median age to rise. On the trailing edge of the bubble, however, there is a steep decline in the population currently ranging from age 15 to 30. This trough can be seen easily in the “Pig in the Python” diagram assembled by the U.S. Census Bureau from the 2000 census data.

¹ Source: Kinsella and Velkoff, “*An Aging World: 2001*”, U.S. Census Bureau, (November 2001).

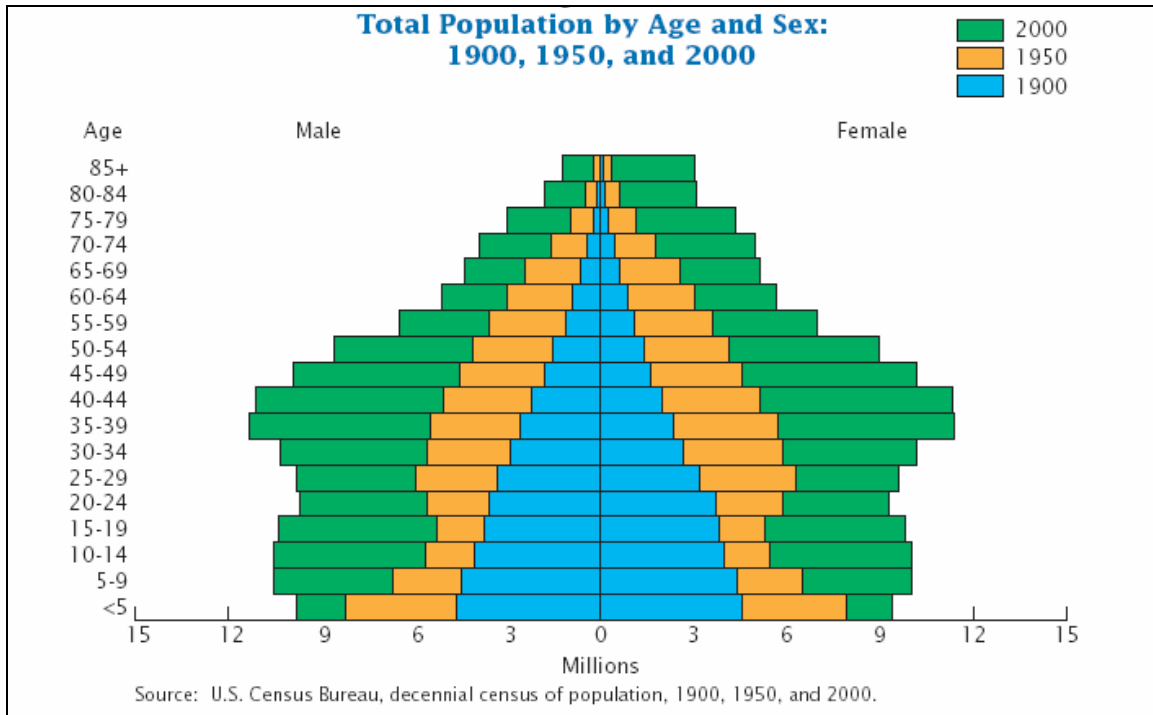


Figure 5:U.S. Total Population Comparisons 1900, 1950, and 2000¹

America is not alone. Indeed, the U.S. does not rank in the top 25 of the world's eldest nations—a list dominated by European nations ranging from 18.1% of the population for Italy to 13.9% for the Czech Republic. The median ages (the age at which half of the population is younger) in the developed world are projected to increase significantly through the next 30 years. The U.S. will see a progression from 36-year to 39-year average ages over the period compared to Japan's projected nine-year increase to 50 years of age.

¹ Source: Hobbs and Stoops, "*Demographic Trends in the 20th Century*", U.S. Census Bureau, (November 2002).

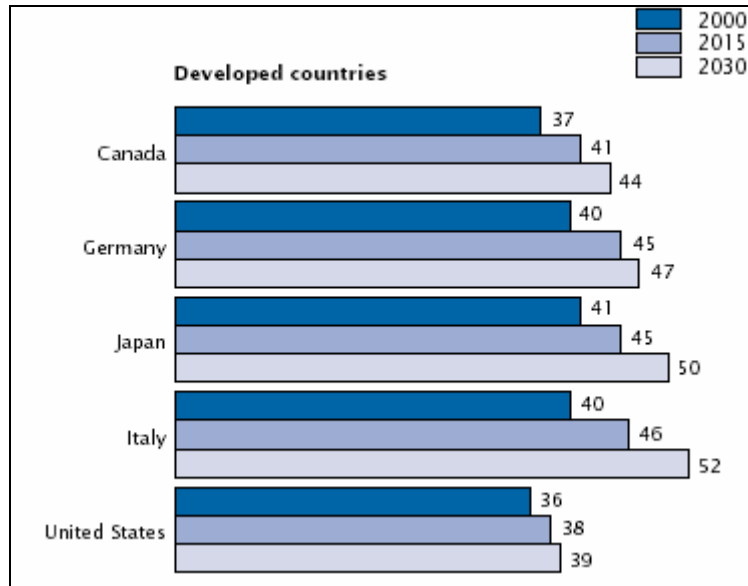


Figure 6: Median Age Projection for 5 Oldest Developed Countries¹

Where will the money be?

One market research firm estimates that by 2010, over 8 million Americans between 55 and 75 will have annual household incomes in excess of \$100,000. Further, the Federal Reserve Board estimates that this same group will have an average household net worth of over \$1.5 million (Francese, 2002). Americans in the 55 to 75 category spent an estimated \$72 billion per year on healthcare in the year 2000 (U.S. Bureau of Labor Statistics, 2000). As the number of Americans over 65 grows to 65 million by 2020, long-term care is expected to triple current revenue levels to become a \$365 billion industry (Somasundaram, 1998).

¹ Source: Kinsella and Velkoff, "An Aging World: 2001", U.S. Census Bureau, (November 2001).

In Japan, the over-65 group makes up 17% of the total population and holds an estimated \$5.5 trillion in savings. Japanese are spending over \$95 billion yearly for products and services that make older living easier (Belson , 2000).

Whose needs are driven by these numbers?

The demographics clearly describe a population that will increasingly need specialized products and services that help them deal with the effects of growing older. This trend will accelerate after 2010, when the baby-boomer mass begins to hit 65 years of age.

But even now, as the population ages, increasing numbers of disabled elderly are demanding that adult children become caregivers. Currently, 22 million American adult children care for one or more of their parents at home, with numbers certain to rise later in this century. Thus, another sizable market is created. Caregivers' lifestyles are likely to be characterized by demanding careers, parental care giving duties, and young children as well as with the lack of time and energy that accompany them.

Why should these trends interest business?

The mature market in the developed countries of the world will continue growing through the foreseeable future. The mature consumer will have record-breaking amounts of disposable income at hand—with six and seven-digit net worth and income flows well into the 70th decade of life. Selling to a market that is growing and affluent makes sense.

Businesses have followed this demographic bulge—providing needful things—throughout its lifecycle.

Business, government, and individuals are all aware that we are on the upward swell of the so-called “age wave”. But, only a few have realized that every wave is followed by a trough. Indeed, the age trough may have an even more significant impact on American businesses than the steady progression of the aging baby-boom generation. The coveted youth market is much smaller in size than it has been in years past. Who will buy all the pop records with a shrinking teenie-bopper population?

How will the expectations of the mature market evolve?

Surveys conducted in the past decade have begun to distinguish the responses of baby boomers and their parents to questions regarding age and lifestyle. The differentials between the two groups hold interesting implications for the evolving nature of the mature marketplace. The distinctions between baby boomers and their parents are reported to be as pronounced as one might expect two populations to be given the amazing disparity in their life experiences. Baby-boomers grew up during the longest period of sustained economic prosperity in U.S. history. Their lives were not interrupted by major war, though seething unease of the Cold War with the Soviet Union played a major role. In contrast, their parents may have grown up during the Great Depression. Many will have fought in World War II or the Korean War. These are very different formative experiences than those encountered by the boomers. The business implication of this great distinction is this: stereotypes developed through a life of experiences with elderly pre-boomers are not likely to accurately represent the behaviors or attitudes of

elderly baby boomers. They will be different, and the approach to business delivery must change to successfully address their unique attitudes.

Age Wave guru Ken Dychtwald observes that as baby boomers begin to reach traditional retirement age in early '00, they will redefine the image of “aging”.

Dychtwald uses examples like Mick Jagger’s continued presence on the rock-and-roll stage as an example of an aging boomer icon (Dychtwald, 1997).

Who is-and is not- “getting it” and Why?

In response to competitive pressure, home renovation category killer, Home Depot, piloted a new store concept intended to improve appeal to women and older shoppers. Dubbed Villager’s Hardware, the store concept used more traditional retail fixtures to bring products closer to shoppers. The store stocked over 37,000 SKUs, including kitchen gadgets and cookware as well as traditional hardware stand-bys. Each Villager’s Hardware store included a demonstration area for power tools and a how-to book section to help consumers find the right solutions. But in 2002, Home Depot scrapped Villager’s Hardware, closing four pilot stores after two years of operation—opting instead to create urban versions of their ubiquitous suburban warehouse stores (Duff, 2002). Home Depot’s continuing poor revenue and stock performance was explored in a recent article in the *Financial Times*. One retail analyst, Cap Gemini Ernst & Young, attributed Home Depot’s slumping stock price to a failure in the “emerging market—people who occasionally do home improvement, women, the elderly” (Liu,

2003). In 1999, Home Depot knew that these ‘occasional’ home improvers accounted for over 80% of projects (Duff, 1999). Why did they fail to carry out the vision?

These revelations are not limited to the U.S.. In fact, companies in the rest of the developed world—Japan and Western Europe—may be in the lead when it comes to understanding and supplying the aging consumer. Refocusing an inherently youth-oriented mission, Japanese toymaker Takara Co. Ltd. has developed ‘toys’ for the retiring Japanese baby boomer, such as a two-seat electric mini-car, a home karaoke system, and a can-opening robot. A Japanese dairy, whose yogurt product lines had long been pitched toward fueling the growth of children, introduced LG21, a yogurt enhanced to kill bacteria believed to cause stomach ulcers and cancer in older people. Meiji Dairies Corporation’s marketing manager was quoted in the *Wall Street Journal* as saying, “The advantage of the [older] market is there are virtually no competitors.” (Prystay and Ellison, 2002)

However, even foreign companies need to come around completely. Coca Cola Japan has not begun to target baby-boomer consumers even though the Asian youth market will shrink by 10% while the over-50 segment will grow by 30% in the next decade. Motorola has created phones with capabilities to enlarge on-screen text and to plug into hearing aids, but admits that they have not developed campaigns to highlight these senior-targeted capabilities. “Our strategic direction is to focus on the youth,.” admitted Motorola’s director of brand and consumer communications for Asia-Pacific to a *Wall Street Journal* reporter. (Prystay and Ellison, 2002)

Outstanding Questions

One important question remains to be answered. Given the growing numbers of aging consumers and given the large amount of disposable wealth in their hands, why has mainstream business failed to develop the innovative and sustainable business models required to reap the supposed profits? Without an answer to this question, businesses will be discouraged from providing important products and services to this market.

Methodology

Still a developing field—business and aging—there is little relevant academic work. Companies are judged as pertinent in this discussion by virtue of either self-proclaimed involvement with the senior market or through a preponderant market response to their products and services. Some of these companies deny that they have any focus on seniors at all; others have been very explicit in their intention to serve them. The lessons of each type of business offering are relevant to a business strategist seeking to build businesses serving a mature market.

The data used in this thesis was collected through research in the business press as well as through interviews with the principle business managers of key companies. Insights from organizations and entrepreneurs pioneering new business models are revealed through case study analysis. The goal of each case study is to illustrate how the 3-D framework can be used to judge various approaches to the mature marketplace. Notable failures also serve to remind aspiring elder entrepreneurs of the consequences of misstep. It is clear that some of the pitfalls have been identified and, with the help of the

collected stories, can serve as a guide. It is also clear that there are ways to fail that haven't even been conceived of yet. This is the trail we follow in pursuit of the "silver lining".

The 3-D Framework

The initial approach to examining this market uses the conceptual model of service quality developed by Zeithaml et al to describe successes and failures in the execution of service businesses.

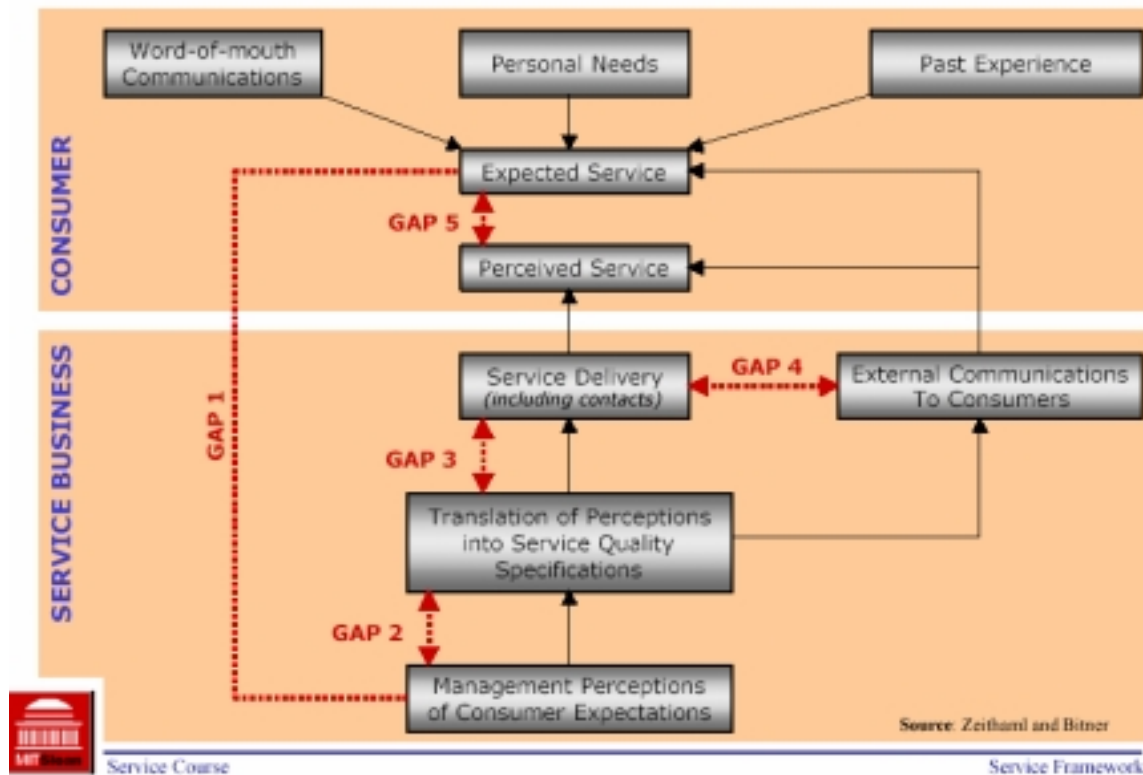


Figure 7: Conceptual Model of Service Quality¹

¹ Zeithaml et al., *Delivering Quality Service*, The Free Press, New York, (1990).

The original framework sought a model that would allow service providers to anticipate the process of developing a quality service offering by examining the gaps between functional or procedural steps in execution. The gaps described by Zeithaml include:

- GAP 1: Not Knowing What Customers Expect
- GAP 2: The Wrong Service-Quality Standards
- GAP 3: The Service Performance Gap
- GAP 4: When Promises Do Not Match Delivery (Zeithaml, 1990)

Indeed, the conceptual model of service quality is a useful model for service businesses dealing with mature markets. The model can also be generalized to include product offerings and simplified to allow a more focused exploration of a specific market segment. The 3-D framework is the result of this simplification and generalization.

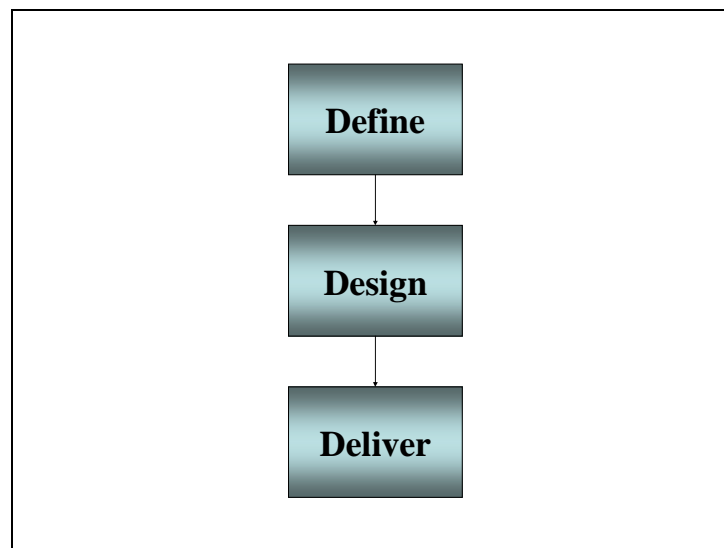


Figure 8: The Simplified 3-D Framework

The 3-D framework used to analyze the cases collected for this paper focuses on the three fundamental activities conducted in the formation of a new business offering. These entrepreneurial activities take perceptions of market need and turn the factors of production toward providing a potential solution. The viability of the business hinges on the acceptance of the resulting product or service by the market. This approach is not unique to the businesses discussed in this paper. Indeed, the rules that govern the performance of firms within all markets hold true. The influences that affect the fundamental three activities are unique. And in creating more effective and profitable businesses, it is these unique factors of influence that entrepreneurs must concern themselves.

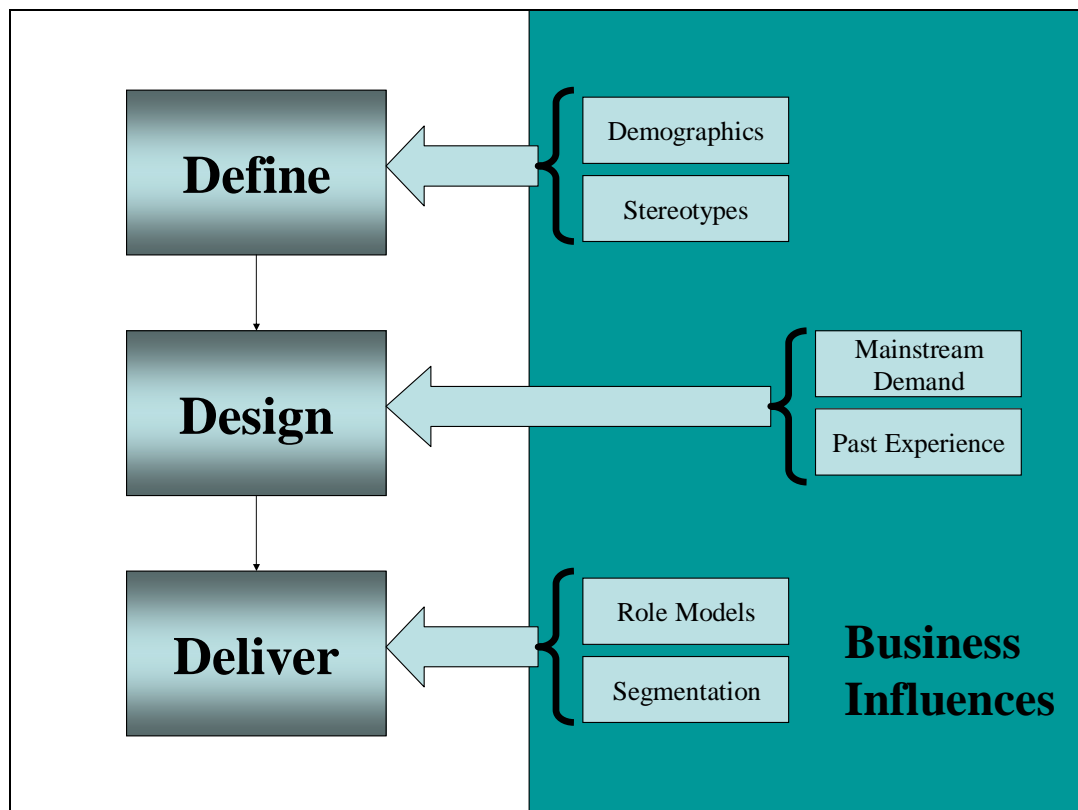


Figure 9: The 3-D Framework Applied to Mature Business

The 3-D framework shows through the successive phases of activity. Defining the relevant business environment includes making an assessment of a market's needs, the competitive landscape, and the technological possibilities. Devising a solution that fits the environmental conditions and satisfies a market need follows from the assumptions made in the previous stage. And finally, delivery activities match market and solution. Each activity can be approached in limitless ways. The approach that an entrepreneur takes in moving from concept to concrete is influenced by numerous factors in the business and personal environment. The question answered in this thesis is: what are the relevant influential factors for businesses serving the senior market and how might they prevent a business from becoming successful?

Define

The Define activity is examined in case studies to reveal how an entrepreneur forms opinions about the expectations of their target customer. There are many ways to form this opinion. But few of the standard methods apply to the new territory wherein the silver lining lies. Of all market segments, marketers have long ignored the 50+ layer. Research and data describe the 18 to 30-year-old markets in exquisite detail. The data available to researchers of the mature market is patchy and limited in scope by time, geography, and circumstance.

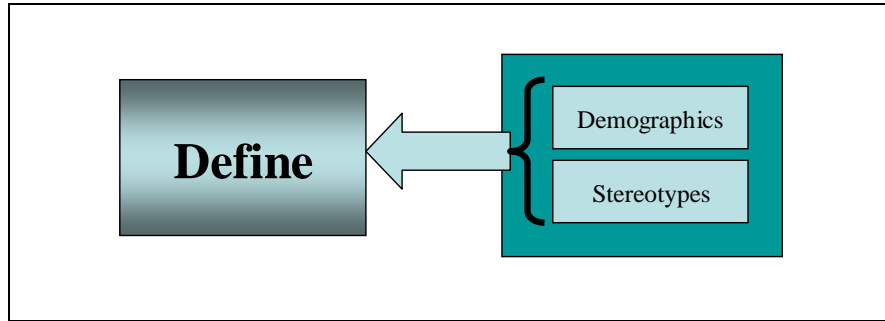


Figure 10: The Define Activity Influences

Demographics

One anonymous business school professor told me that for years marketing classes boiled down to a simple maxim: figure out what the baby-boomer generation is doing and give them what they want. It is clear that fortunes have been made following that advice. The success of the minivan and The Gap stores indicate that this advice has worked some magic in the past.

But beware: the next logical step is a dangerous one. Businesses have already begun to follow the boomer profit trail over a demographic precipice. Companies are applying the familiar formula and find unexpected results. The no-brainer marketing maxim has led many astray and will leave many executives scratching their heads in confusion. Some of these folks will fail to realize that boomers will not go gentle into that goodnight. Some will assume that nothing will change in a boomer's life and others will assume that boomers will age like their parents did. The truth surely lies somewhere in between, as our case studies will show. A careful charting through rocky water is required for businesses to succeed. As CEO and founder of Sunrise Assisted Living Paul Klaassen put it, "Demographics are not destiny." (interview with author, 2003)

The demographic influence is also a powerful force. We are trained to think of numbers as representing unassailable facts. Like the sirens from Greek mythology, the demographic numbers lead many unwary entrepreneurs to ruin on the rocks. They tempt. They promise riches and success. The call of the large, growing, and seemingly homogenous market is powerful. We will see later that this influence is often deadly.

Stereotypes

At the very bottom are the stereotypes about the target consumers—the prepatterned images of what a “senior citizen” is. They are a powerful influence on the entrepreneurs’ understanding of the customers’ attitudes and behaviors. Stereotypes are insidiously dangerous to a businessman setting sights on a mature consumer. These images lurk below consciousness in a realm that is rarely challenged by rational thought. Even experienced gerontologists can be misled by the mental models built up over years.

Stereotyping is perhaps the most obvious source of a gap between consumer expectations and management’s understanding. In an era where stereotyping of almost every sort is widely derided, ageism stands as the most enduring. Paul Klaassen observed, “We don’t talk about other demographics that way. Try putting the word ‘race’ or ‘sex’ in the place of age in some of these comments and you would be appalled.” (interview with author, 2003)

The use of stereotypes may have validity when the collective experiences of a culture are applied in aggregate. The problem in this case is that “elderly” is not an immutable state of mind. Patterns observed from our grandmothers will not teach us much about the behaviors of similarly aged baby boomers. Basing business decisions on

these dated assumptions not only wastes resources through failure to influence buying behaviors, but also runs a great risk of offending consumers that define themselves very differently. Baby-boomer consumers are not likely to define themselves as old. Missing this point can be a major error.

The stereotypes of aging, however, seem to go unchallenged in a world obsessed with youth. “Half of the time, the CEO of the company will tell you an ageist joke and you would laugh,” Klaassen said (interview with author, 2003). Not only will jokes in poor taste alienate your customers, but those jokes can be indications of deeply held beliefs and deadly assumptions. The ageism stereotype assigns attributes like frailty, poverty, and cantankerousness to anyone with gray hair and an AARP membership card. The wide spread acceptance of stereotypical attribute’s of age resulted in the present lack of a body of historical marketing research applicable to over-55 consumers. For nearly the entire history of American commerce, the aged have been assumed by mainstream business to be commercially unviable. After all, most old people don’t have the money to be worth a business’s attention. Lack of business interest naturally results in a lack of marketing attention—the gap in understanding of consumer behavior deepens.

Design

The Design activities of an entrepreneur focuses on how opinions are translated into a business proposition for their customer. The proposition can be a concrete design in the case of a physical product or a service specification for a service delivery concept. The key is that the entrepreneur’s understanding is crystallized in a way that should satisfy a consumer need.

Even if an entrepreneur accurately understands the expectations of the mature marketplace, the gaps and traps ahead can spell disaster for a business. To avoid the next gap, the understanding must be incorporated deeply into the value proposition of a new product or service. The conception of a new business proposition needs to fit the views and behaviors of the target market in order to be truly successful. As we will see later, missing the behavioral implications of remote banking was lethal to the AARP Credit Union.

Knowledge must be incorporated into a package of benefits that truly fit the needs of consumers. The mature market has unique needs, but not as many as one might assume. Market surveys suggest that, for the most part, consumers over 65 tend to follow purchase patterns established in their 20's and 30's. The brand names that have been familiar over the course of their lives are preferred. There is no magic age that triggers an abandonment of a lifetime of habitual consumption. Indeed, if an offering could adapt slightly to make it possible to fulfill a consumer's needs, there might never be a switch in the consumption. Choice changes do occur, however. It follows that certain mainstream products and services solidly miss the opportunity to remain viable for the older consumer, forcing them to seek alternatives. Some instances of this are unintentional; others are intentional.

OXO International, the firm responsible for the creation of the 'Good Grips' line of uncommon household tools, illustrates success through excellence in product design. Company history holds that OXO International was created when founder David Farber was struck by the how difficult kitchen gadgets were to use for him and his aging wife. A lifetime spent in the design and marketing of kitchenwares hadn't sparked the idea on

its own, the experience of aging must have played a key role in his inspiration. The Good Grips line of products was generated by that idea that products should be “more friendly” to people with reduced dexterity. Alex Lee, now President of OXO International will tell you adamantly that they do not design products for old people. The inspiration may have come from that quarter, but the mission immediately became more general. (interview with author, 2003)

The strategy that OXO followed allowed them to be successful creating products that could have otherwise been relegated to hospital supply stores. The promise of the company is better tool for all people— Universal Design is the name of the development philosophy that grew out of the efforts of designers involved with the Good Grips tools. The Universal Design theme encourages design that would be usable by mature users, but would also be useful to much younger consumers as well. It might also be used to disguise the intent of designers seeking to make the life easier for the world’s elders. Alex wouldn’t say that was explicitly part of the strategy to do so. That would be too obvious. (interview with author, 2003)

What the Universal Design camp misses is the nuances of form preferences. That a product is usable by the consumer is the minimal cost of entry into a marketplace. Items that are not generally usable do not do well. The choice of one new product over an equivalent one really speaks to the ability to target a specific market segment. This is where the combination of the usability practices of Universal Design and the form fitting approach of the Cohort Design might yield powerful products in the mature marketplace.

A person’s expectations about life, and therefore about commerce, are formed as they accumulate experiences with the world. The most mature consumers will have the

largest accumulation of experiences and therefore the most complex and varied set of expectations. A complicating factor is that research suggests that many of an individual's fundamental tastes in products form between the ages of 17 and 23. The Cohort Theory (Schewe, 2000) holds that the events, images, and feelings experienced in late teen hood form a social gestalt that solidly influences the preferences of people throughout their lives. The nature of the influence will be largely consistent for members of the same cohort.

Indeed some companies may be using insights into the early formation of a consumer's preferences to design better products for that cohort. Cohort grouping uses insights derived from the study of the major events and popular culture iconography in a given window of time to determine behavior and attitude on a coarse scale. (Schewe, 1997) These insights can be used to define familiar patterns of thinking that do predict certain behaviors accurately. A study of one such cohort resulted in the design of the PT Cruiser, a car model designed to appeal to a generational segment that grew up watching similarly styled cars in gangster movies. The success of the PT Cruiser with the intended age segment is evidence of the potential of the cohort concept in product development.

Such understanding of the origins of a consumer's perceptual wiring could yield competitive understanding. At this point in time, there is not enough information compiled about the various cohort groups to be widely deployed in the product design arsenal. As successes continue to emerge, the cohort design principle may catch on.

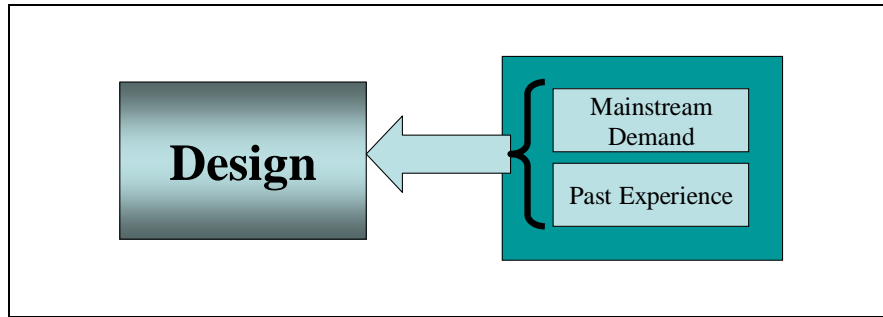


Figure 11: The Design Activity Influences

Mainstream Demand

A product designed around a physical handicap is not one likely to find broad appeal. Able-bodied people are unlikely to choose to scoot around in a wheelchair, no matter how cleverly marketed. The new mini-Euro Scooter, on the other hand.... This appears to be the theory behind Dean Kammen's Segway project. The appeal of the device has yet to be proven, but the implications for the handicapped of the fundamental technology are powerful. Balancing the need to solve a specific problem for a mature market with a desire for broad market appeal is difficult. Executed poorly, the strategy may result in an offering that finds no market at all—executed properly, the strategy can bring major profits as seen in OXO International's example.

Companies like Procter & Gamble are making profitable in-roads with new offerings like the "Rejuvenating Effects" brand of toothpaste aimed at aging women, the Olay anti-aging cream, and Actonel, an osteoporosis drug expected to yield \$500 million yearly in the aging nations of the developed world (Prystay and Ellison, 2002). Yet, the instincts of large brand companies are to keep one foot wet in the mainstream. Oil of Olay, P&G's \$500 million line of skin care products, got a name change after passing her

50th anniversary, when marketers discovered that younger consumers were “a little grossed out” by the ‘Oil’ in Oil of Olay. P&G hopes that the name change and the release of a disposable face-cloth version of the Olay product will bring the targeted 5% to 7% yearly sales growth by attracting a new generation of consumers (Nelson, 2000).

Past Experience

And, of course, every business comes with a collection of past experiences. The owners, directors, management, and staff carry individual histories that are blended subtly into a company’s culture. We have been trained to respect experience—it is hard to argue that experience is not an accurate leading indicator of a firm’s performance. We will see, however, that experience does not always lead firms in the right direction. The human mind is wired to find familiar landmarks from among otherwise unfamiliar circumstances.

Past experience is typically seen as a positive contributor to success in business. Past experiences make people more confident in their abilities—sometime it makes them over confident. An early success may lead to future failures when managers fail to understand the deeper motivations behind a consumer’s behavior.

Deliver

Further up the chain is the Delivery activity. Delivery is a broad activity that encompasses all aspects of a consumer’s interaction with the firm. It is the magical time when customer relationships are made and broken. This is the area where marketing,

sales, and customer service can be used to complete the promise of the firm to the consumer.

All of these actions, visible and invisible to the consumer though they may be, impact the customer's experience of the firm. They will love your food, but hate your waiters. They may need your automobile but may be turned-off by the sales strategy. Ultimately, the consumers' experience is the only thing that matters. The success or failure of a business depends on customer perceptions. In the mature consumer, the perception of a particular offering is driven by an amazingly rich set of factors. Many years of past experience with commerce across industry segments contribute strongly to perception as well as expectations. From the first car store purchase to the latest trip to the new car dealership, lifetimes of consumer experience are combined in endless variations. These variations create sweet spots and warning signs that are often as wildly divergent as the people possessed by them. The mature market is more heterogeneous in preferences than any of the younger swaths in market segments. Heterogeneity is a reflection of the volume of accrued disparate experiences—each of which serves to distinguish one's outlook from one's fellows. This aspect creates a serious challenge for market researchers who are looking to exploit commonalities of perspective and behavior to create more appealing products and services (Moschis, 1990).

These factors are also tainted by the consumer history behind each shared anecdote. However, people tend to share experiences that are relatively recent. Rather than reach back decades to comment on the quality of a product, people are more likely to discuss products, services, and experiences consumed in the last month. The more recent experiences of peers can therefore be influenced positively or negatively by a

company. Advertising is by far the most controllable element in the formation of a consumer's expectations. A company can control its own advertising and can at least respond to negative advertising offered by competitors.

Mature consumers are savvy, having over 50 years of experience with commerce—they are wary of inflated promises and outraged by under-delivery. Successful businesses need to develop long-term, customized relationships with their mature customers. (Nielson and Curry, 1997) In an article for the *Journal of Consumer Marketing*, Nielson and Curry suggest that a successful advertising in the mature marketplace should use imagery that is at once clear and open to individual interpretation. The focus should be on providing information within an emotional context that does not lead to “the primrose path”. (Nielson and Curry, 1997)

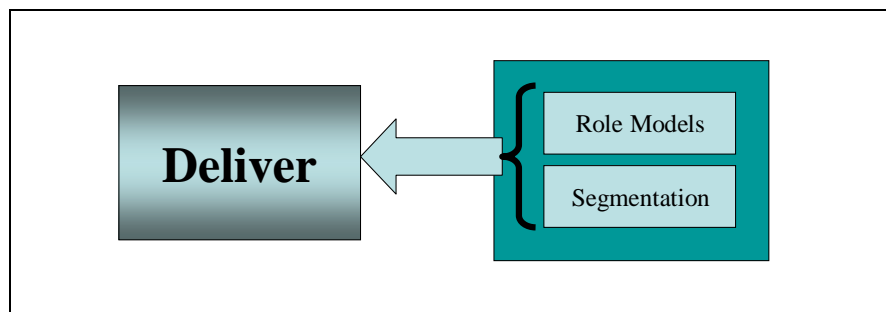


Figure 12: The Deliver Activity Influences

Role Models

One assisted living company, Sunrise Assisted Living, still a stand-out among competitors, is posting profits where others can only claim red. According to Paul Klaassen, founder and CEO of Sunrise Assisted Living, Sunrise cleared \$50 million in 2002—a year when the other 11 public assisted living companies lost a collective \$500

million (Interview with the author, 2003). Using this profit power to expand, Sunrise acquired major competitor, Marriott Senior Living Services, for \$89 million in cash and several million in debt assumption in early 2003 (Health Care Strategic Management, 2003). Now with 30,000 employees across the U.S., Sunrise is poised to dominate the assisted living industry (interview with the author, 2003).

The secrets of success and the shortfalls of the competition start with a comparison of the company's role models. "We take out cues from the Ritz-Carlton and the nicest of Hyatt's product—the best run environments are our inspiration," Klaassen explains. (interview with author, 2003) The chain adapts ideas and emulates the delivery practices of a broad range of the world's best franchises. Klaassen replicates the pleasing environment of a Ritz-Carlton and combines it with the personalized service of Nordstrom (Davis, 2001).

Regulation and a medical industry mentality have constrained the design of the housing environments and the delivery of adequate service. In tough economic conditions, most senior living companies default to the standard practice of cutting costs—sacrificing homey feel for fiscal efficiency. According to Klaassen, this instinct is wrongheaded. "We spend more per square foot than anyone else." That extra expense is passed on to the consumers in the form of higher fees. "We cost more and people are willing to pay more for the quality for the same reason that Ritz Carlton and Weston hotels are able to get \$50 to \$100 more per night." This is particularly true in the assisted living segment, which counts on adult children to make purchasing decisions rather than the residents themselves. "People will pay for quality—people care about their environment." (Interview with the author, 2003)

The most important lesson Klaassen learned from his role models: delivery of world-class customer service demands talented and well-trained staff. Sunrise starts by hiring employees with “a servant’s heart”—about 20% of the population, Klaassen estimates. But with a target retention level of 40%, or an average employment period lasting only 2.5 years, Sunrise also has to be a training company. “Training and hiring,” Klaassen said, “is something that you have to be good at in this field or you need to get out.” Sunrise emulates Ritz-Carlton’s 5-Star training program—using a variety of media to convey the culture of the company to new recruits. They use videos, books, and “lots of job training”—emulating Ritz-Carlton’s practice of staff shadowing to give new employees immediate exposure to best-practices. And the training is always on-going. To gauge the progress of an employee, there are continuous tests, tutorials, and practicum, each requiring management signoff.

Many companies entered the senior living market from the medically oriented skilled nursing field and brought with them out-moded roles. “They said, ‘Oh, we are going to move downstream into the less acute area of senior living... look at the demographics!’”, Klaassen said of the influx of skilled nursing companies into the senior living market. But Sunrise, founded by Paul and his wife Terry in 1981, was different. The Klaassens opened their first senior living facility right out of college. Their operations are driven by principles like “nurturing the spirit” and “preserving dignity” rather than cost-cutting. “The healthcare system does not train to be obsessed with customer service.” For that reason, Klaassen admits to having a bias against hiring people with healthcare backgrounds. “[A career] in the healthcare industry is not good training for the senior living field.”

Segmentation

Marketers need accurate segmentation to target advertising and promotions to the most receptive consumers. A segmentation model is only as good as its ability to make useful predictions about the general attitudes and behaviors of a group of people. Age group sub-segmentation rarely delivers reliable, predictable results when applied to the mature market. When asked if a market defined purely by age exists, Paul Klaassen said, “My experience is that there is not.” (interview with author, 2003)

The extreme heterogeneity of the market makes the common practice of age swathing a poor predictor of behaviors and attitudes. In the past, several other methodologies have been used by advertising and marketing agencies to attempt to group seniors into subsegments possessing better predictive capability. These methods use physical, social, and psychological factors to create classifications of aging consumers.

The Bartos segmentation (Moschis, 1996) is based on sociological roles rather than more coarse factors, such as age or gender. Major groupings in this schema include *Active Affluents*, *Homemakers*, *Active Retireds*, *Disadvantaged*, and *Poor in Health*. Each socio-segment can be examined to reveal certain elements of preference and behavior.

A more sophisticated model proposed by the NW Ayer Advertising (Moschis, 1996) company combines both psychological disposition and sociological roles into subsegment groupings. Categories in this schema include *Satisfied Selves*, *Worried Traditionalists*, *Contented Traditionalists*, and *60s in the 80s*. These groupings come closer to making accurate segments, but still fail to reflect accurately the changing nature

of psychological outlook and sociological positions that occur in a life stage that is filled with radical transitions.

Another study, called the Lifestyles and Values of Older Adults (LAVOA), formed a segmentation based on survey and interview responses to a specific set of criteria: specifically the attitude of seniors toward housing choices (Moschis, 1996). This survey combines physical, psychological, and sociological aspects of life into a single, special-case model that has proven useful to the housing industry. The segments described by the LAVOA survey are *Explorers*, *Adapters*, *Pragmatists*, *Attainers*, *Martyrs*, and *Preservers*. The development of a specialized model for every given market need, however, would prove impractical.

In his book, *Gerontographics*, author George Moschis proposes a new approach to segmentation of this market. The gerontographics model is based on the progression of events and stages within the later years of life and reflects a journey through life rather than a static positioning. This model is called a life-stage model because it recognizes that there are common states of being through which a life will likely progress. Moschis proposes four major stages (and therefore four segments):

- Healthy Indulgers -- “Young-at-heart”, youthful, active, and most likely to behave like younger consumers.
- Healthy Hermits -- Healthy but withdrawn psychologically and socially; may deny “old age” status; life events may affect self-concept and self-worth forcing withdrawal.
- Ailing Outgoers -- Social and active but with physical constraints; acceptance of aging and frailties; preoccupied with financial and physical independence.

- Frail Recluses -- Significant physical constraints and socially withdrawn.

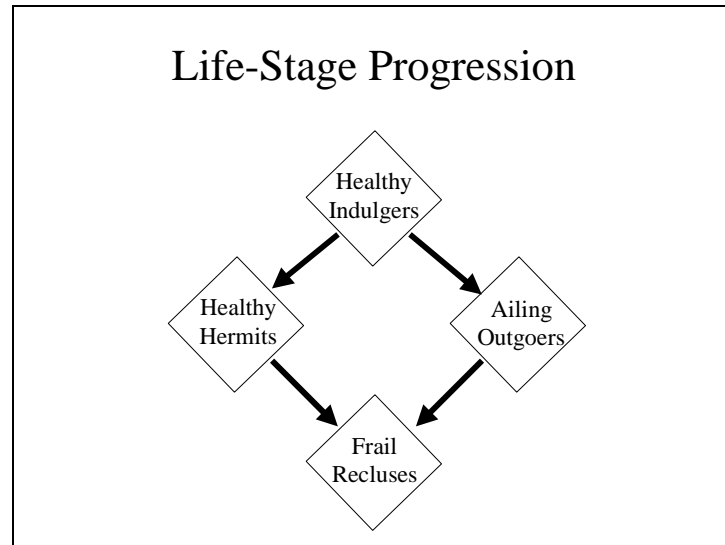


Figure 13: Gerontographic Segmentation Model

The model describes a typical progress starting with the *Healthy Indulger*, who behaves largely in a manner consistent with their behaviors established in earlier adulthood. They prefer to buy the same products in much the same way that they always have. This segment is important because there is usually an expansion of free time and an increase in disposable income associated with those nearing or having just passed retirement. Moschis explains, people may stay for years or decades in this stage according to a number of factors related to their health, social position, and major life changes. Significant life changes might include retirement or the death of a spouse or family member.

When life factors align appropriately, the average senior will move from the *Healthy Indulger* stage into either the *Ailing Outgoer* stage or the *Healthy Hermit* stage. The *Ailing Outgoer* will change stages typically by virtue of the occurrence of significant

physical impairment. These impairments are significant enough to affect the lifestyle but not severe enough to prevent the execution of most tasks of independent living. The *Ailing Outgoer* will become typically more involved in community activities that may help them to cope with the changes in their lifestyles. Their time is preoccupied with social activities.

By contrast, *Healthy Hermits* change stages not from change in health, but from events that affect the social positioning and ties to the communities at large. This might take the form of the retirement of a career-minded individual who, without the support of the job to define a role and identity, may lack the tools to relate to society. The members of this segment therefore tend to be withdrawn from the community and focus on their own survival needs.

From either of these interim stages, a move to the *Frail Recluse* stage is typically motivated by either a loss of physical ability in the case of a *Healthy Hermit* or the advent of a major life change in the case of an *Ailing Outgoer*. This stage is typically the final stage, characterized by an increased dependence on others for the fulfillment of daily needs and an increasing detachment from society. This stage typifies the crippling of both the mind and the body.

Of course, an individual's progression through these stages may be extended or attenuated depending on circumstance and general outlook. Stage changes may be temporary in some cases. Though the importance to business lies in the general applicability rather than the ability to account for a given circumstance of an individual's life. (Moschis, 1996)

Case Studies: Failures in 3-D

Three sub-industry case studies have notable failures due to problems at the gaps between the 3-D activities.

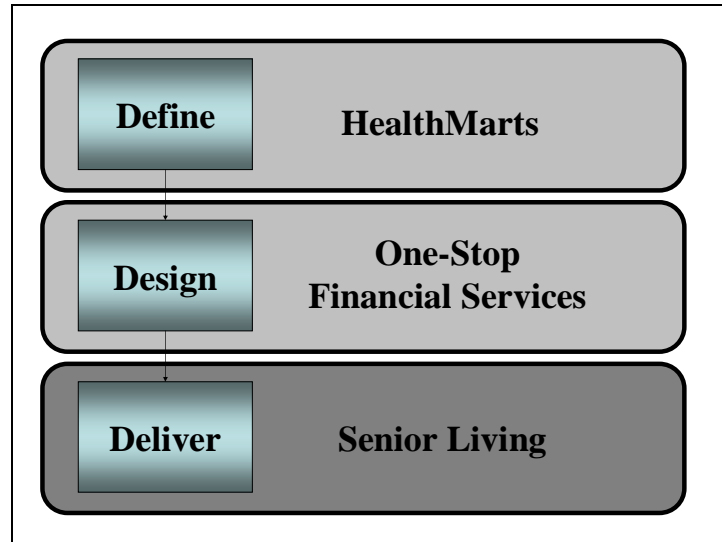


Figure 14: Case Studies and the 3-D Framework

Health marts: Failure by Definition

Driving failures in the Delivery activity of entrepreneurs are choice of role models, stereotypes, and non-market drivers.

Enter the health mart concept—a category-killer retail vision that seeks to provide everything from vitamins to wheelchairs for an increasingly health-aware population. The demographics seem right. It worked for Home Depot.

In 1996, MedMax of Southfield, MI opened the first 20,000 square foot retail store in Michigan. CEO Kevin Browett's goal was to open 200 such stores by 2002:

“The demand for health- and wellness-related products and services is going to grow significantly during the next few years as aging baby boomers focus more on healthcare—their own as well as their elderly parents” (Wilson, 1997). The MedMax stores featured a knowledgeable staff, including nurses and respiratory therapists. The stores featured over 20,000 SKUs representing products like mobility equipment, professional apparel, vitamins, medication, safety devices, and health-related books and videos. Educational programs were organized to offer free seminars ranging from diabetes and foot care to exercise classes (Buss, 1999). The concept was to offer one-stop shopping—a single source for a wide array of healthcare products and services (Wilson, 1997).

MedMax was co-founded by Ken Dychtwald, CEO of AgeWave; a man who the Wall Street Journal describes as being “widely regarded as one of the nation’s leading gerontologists”. The enterprise was funded by AgeWave and Baxter Healthcare (Buss, 1999) to address the \$20 billion home healthcare market. At the end of the first year, the first store was “pushing close to \$3 million” (Wilson, 1997).

By 1999, MedMax had filed for Chapter 11 protection and the board of directors ousted CEO Browett to begin liquidating the remaining assets of the business. Soon to follow MedMax into insolvency and store closure were similar category-killer concept stores, Take Good Care of Springfield, NJ, American Health Store in Rockville, MD (Bull, 1998), and real estate developer Centex’s Life Solutions (Weber, 1999).

The former CEO of Life Solutions, Mike Albright, was quoted as saying, “Everybody loved the store, the presentation, and the shopping experience, but they just didn’t need the products. I think the store will have tremendous potential in 5 to 10 years, when the baby boomers hit 65.” (Weber, 1999) MedMax partner, Dychtwald, also

put timing at the top of the lesson list saying, “MedMax was a brilliantly imagined idea but 3 to 5 years ahead of its time.” (Buss, 1999)

Former CEO of MedMax was less sure that the timing accounted for the failure of the business. He attributed MedMax’s meltdown to trying to sell too many things to too many people (Buss, 1999). Retail design consultant Arnold Ward, of Arnold Ward Studios, thought that the concept suffered from split personality and ultimately confused shoppers. “The average person, when they want to buy vitamins, doesn’t want to go to some place selling wheel chairs.” (Bull, 1998)

Another perspective was offered by former MedMax marketer, Mary Ann Wilson. “Weekend warriors didn’t want to go to the same store as nursing mothers and as senior citizens who were visiting for incontinence problems. Some things just don’t belong in the same store.” The practice of referring to the stores as a “health and care” superstore rather than as a “healthcare” superstore fell flat with consumers. “People thought it was a ‘sick store’, a ‘sick shop’,” Wilson told the Wall Street Journal (Buss, 1999). In the end, the idea of the health mart failed because the concept was defined as being a store for the frail and disabled. People do not want to see themselves as being limited by age or injury. The consumer must be courted positively rather than in a negative light.

One-stop Financial Services: Failure by Design

There are three primary negative influences that appear to affect entrepreneurs during the Define activity of business formation: demographics, stereotypes, and past experience. Each of the three will be discussed in turn.

The National Retired Teachers Association (NRTA) was established in 1947 by Dr. Ethel Percy Andrus, a retired public school principal. The NRTA, a lobby group of retired teachers, was organized to attract the attention of insurance companies whose health insurance plans would not cover individual retirees. The promise of an exclusive market as large as the retiree population attracted the attention of insurer Leonard Davis, then employed by Continental Casualty, who developed a program to insure the retired teachers at NRTA. (AARP History Web Page, 2003)

After ten years, Dr. Andrus and Leonard Davis responded to popular demand by expanding the scope of the organization to include all Americans over the age of 50. In 1958, Leonard Davis left Continental Casualty to start a new insurance company, Colonial Penn (interview with author, 2003). Dr. Andrus, backed financially by Davis and Colonial Penn, founded the American Association of Retired Persons (AARP) to bring the benefits of available health insurance to non-teachers. The resulting partnership between Colonial Penn and the AARP propelled both organizations into previously unprecedented achievements in terms of profit and membership size (AARP History Web Page, 2003).

The very driver for the formation of coalitions of retirees was the failure of insurers to offer coverage to the typical retired individual. The insurers fell into the stereotype trap. “The actuarial assumption was that these people were uninsurable,” Horace Deets said (interview with author, 2003). The poor health and poorer finances of retirees posed both an excessive risk and a poor source of premiums, leading mainstream firms to ignore this market segment entirely.

In 1979, public inquiries forced the AARP to put provisioning of their insurance business out to bid. This was driven by concern that Colonial Penn's twenty years of exclusive access to the AARP's membership had made the insurer less than competitive. A new relationship was formed between the AARP and Prudential. Members' coverage would default to remain with Colonial Penn. A voluntary action was required to move coverage to the new AARP provider, Prudential. "Eighty percent of the members voluntarily moved their insurance to Prudential. This clearly showed the power of third-party endorsement," commented Deets. (interview with author, 2003)

The failure came years later when the AARP sought to expand the services offered to members by creating a new suite of financial service offerings. In 1988, a partnership was created between the AARP, Bank One of Columbus, OH, and Scudder, Stevens, and Clark of New York, NY to create a virtual credit union serving the AARP's 28 million members. The credit union would offer three specialized, discounted banking services to members: savings accounts, credit cards, and Certificates of Deposit. The model used successfully to build an attractive offering with insurance partners, Colonial Penn and Prudential, was followed in the formation of the new partnership. "They used some interpolation from some prior successes without understanding what would be different with a banking experience," said Deets of the forecasting used by the partner companies. (interview with author, 2003)

The numbers made for a powerful temptation. Today, the nation's largest credit union, The Navy Federal Credit Union, has 800,000 members and \$3 billion in assets. The new AARP venture would have surpassed even this giant if only 3% of the AARP's 28 million members signed on. Bank One was expected to realize over \$5 million in

annual revenue from check processing fees alone. Scudder's funds management fees would bring even higher revenues. The AARP thought that the partnership would bring a major new benefit to its growing membership. It intended "to set a benchmark for reasonably priced financial services," according to their launch announcement (Rosenstein, 1988).

At the time, banking industry observers were skeptical of the partnership's approach. Most credit union franchises were small, regional players. The sentiment among the players was that the typical American over 50 would prefer to deal with a local institution (Rosenstein, 1988).

But by 1990, the savings account offering was dropped by the partnership because growth was "slower than expected". Only the credit card offering was characterized as popular. The AARP credit union had managed to gain only \$150 million in assets from 90,000 customers (Trigaux, 1990).

The detractors in the industry had been partially correct. The joint venture failed because the parties involved failed to realize that the traditional neighborhood bank with which they sought to compete held a less obvious role in their member's lives: a social outlet. What even the retirees themselves could not put into words was the importance to a senior's social network of the regular visit to the bank. "Part of it was not doing sufficient market testing ahead of time to find out if what worked for one product would work for another product," Horace Deets said. (interview with author, 2003)

Marketing interviews during the implementation suggested that such banking services should have been welcomed. "We made some mistakes up-front," said Deets of the failed enterprise. "The mistake was assuming that because of the success of the

investment programs and the insurance offerings that if AARP put its name on the credit union it would enjoy an equal surge [in membership] and customer appeal.” (interview with author, 2003)

People would not relinquish their social contact channel regardless of how attractive the banking alternatives offered by the AARP. What worked for one business failed to work for another because the underlying behaviors of the market were poorly understood. “We didn’t know what was different about it,” explained Deets. (interview with author, 2003)

If the American Association of Retired Persons can make a misstep in the mature marketplace, then many other businesses should take close notice. The lessons to be learned here are that the behaviors of the consumer are often more complex than expected. The failure in design was not understanding the “social transaction of banking”. Deeper understanding leads to better insights. Demographic numbers and big revenue projections can cloud an entrepreneur’s ability to see clearly.

Senior Living: Failing to Deliver

Three negative influences on the Design activity are mainstream demands, egocentrism, and the recurring influence stereotypes.

The long-term care or senior living businesses are the pioneers in the mature markets. Privately owned and operated homes specifically for the infirm elderly became more common after World War II. The Hospital Survey and Construction Act of 1946, commonly known as the Hill-Burton Act, allowed states to direct federally subsidized loans for the construction and renovation of new hospitals. The resulting explosion of

new hospital construction had the unexpected side-effect of inspiring the conversion of older hospitals into nursing homes. The conversions carried over to hotels, large homes, and other buildings as federal subsidies for nursing care increased.

Government subsidies dedicated to expanding the newly created Social Security Act expanded steadily. The Old Age Assistance program was expanded by the Medical Assistance for the Aged (Kerr-Mills Act) to pay for healthcare of the “indigent” elderly. The Kerr-Mills Act provided a 50%-85% reimbursement to states for welfare programs designed to help the elderly with medical care. The Act also created the “medically needy” category of benefit recipient to assist aged Americans who were not on public assistance, but could not afford to pay for needed high-cost medical attention. This benefited the nursing home industry by opening the federally funded doors to a whole new group of residents. The so-called, “woodwork” effect flooded the industry with people who had previously found care through other means and who now ‘came out of the woodwork’ to take advantage of the new government welfare benefits. The influx of the newly eligible created what “seemed to be an unquenchable shortage of beds”. The artificial shortage allowed private businesses to raise prices and fueled further expansion. (Stephenson-Brown, 2002)



Figure 15: Sweet Springs Hotel, Sweet Springs, WV. Converted from hospital to nursing home in 1945¹

The creation of the Medicare and Medicaid programs in 1965 created an even greater funding pool and a boom in the nursing home industry. The number of public companies in the space increased from 58 at the start of 1969 to nearly 90 by 1970. Nursing home corporations raised \$340 million in initial public offerings in 1969. The hottest of these stocks became known as the “Fevered Fifty”. The frenzy was driven by the industry prospectuses that touted 20% - 25% yearly returns due to guaranteed government revenues, the growing numbers of elderly, and the promise of subsidized

¹ Source: *Library of Congress: Historic American Buildings Survey (HABS)*

ancillary markets. (Hawes and Phillips, 1986) One underwriter, quoted in *Barron's* in 1969, summed up the public attitude by saying, “Nobody can lose money in this business. There’s just no way.” (Elliot, 1969)

At the peak, price/earnings ratios were as high as 40 times those of blue-chip stocks. Like most bubbles, the sudden shock of the burst was catastrophic—Medicenters of America share price rose to \$60 in the late 60’s and dropped to \$4 by the mid-70’s. The nursing home bubble also had its notable fraud cases. Four Season Nursing Centers, whose stock nearly topped \$100 per share plunged to \$.06 per share after officers from the company and the brokerage firm, and partners from the accounting firm were indicted for securities violations. Underlying the expansion and subsequent burst was a “serious miscalculation about the role of Medicare in paying for nursing home care”. (Hawes and Phillips, 1986)

Government regulation of nursing homes tightened throughout the 1970’s, creating a much more challenging economic environment for the long-term care industry. The cutbacks in reimbursement, declines in morbidity rates, and the exuberant construction of new homes created a glut in nursing home beds. Most of the small firms were aggregated into national chains during subsequent decades. Survivors clung to cost-cutting and conservative spending. The Moss Amendments to the Medicare and Medicaid regulations passed in 1967 created a further schism in the long-term care industry. Tougher safety and staffing regulations imposed by the amendments carved off the top tier of the nursing homes while creating a new classification out of those that failed to make the tougher regulatory grade. The Intermediate Care Facilities (ICF) became a catch-all category for substandard homes. The regulations specified that the

ICFs would offer custodial care short of the more medically intensive care requiring mandatory nursing staff. Arguably, this new class of senior living created a new submarket of managed care called assisted living.

Sunrise Assisted Living CEO, Paul Klaassen thinks that many assisted living companies are failing to address the needs of modern seniors. A lack of a customer-centric approach has led to an abundance of unsuitable product in the senior living market. To explain this counter-productive approach, Klaassen points to the sterile-environment origins of the industry. “This is where the healthcare thinking came in. You end up with long, long corridors and too many fluorescent lights.”, he said (interview with the author, 2003). Dr. Benyamin Schwarz, assistant professor of Environmental Design at the University of Missouri-Columbia agrees. “Walk into a nursing home and your impression is of a place to die rather than a home in which to spend your final years.” In a study of practices across the senior living industry, Dr. Schwarz categorized the state-of-the-art in the industry as being “simply based on the wrong model—the medical model.” (Bruck, 1996)

The managed care business continues to operate in cycles driven by demographics, regulatory changes, and the evolving expectations of elders and their caregivers. Between 1995 and 1997, 13 assisted living companies raised a total of \$500 million in IPO money (Dolan, 1997). Now in the 21st century, the long-term care/senior living business is in a downturn. Today, senior living is a private-pay field; there is very little public-pay remaining. Regulation provides for long-term housing only for the indigent in need of skilled nursing.

On the whole, the future of the long-term care industry may be in jeopardy. With tomorrow's seniors likely to be healthier and more independent-minded than ever, alternatives to assisted living may become preferred. Even today, 90% of Americans over 70 live in conventional housing. Relatively few elders will experience serious physical or mental disabilities in their lifetimes.

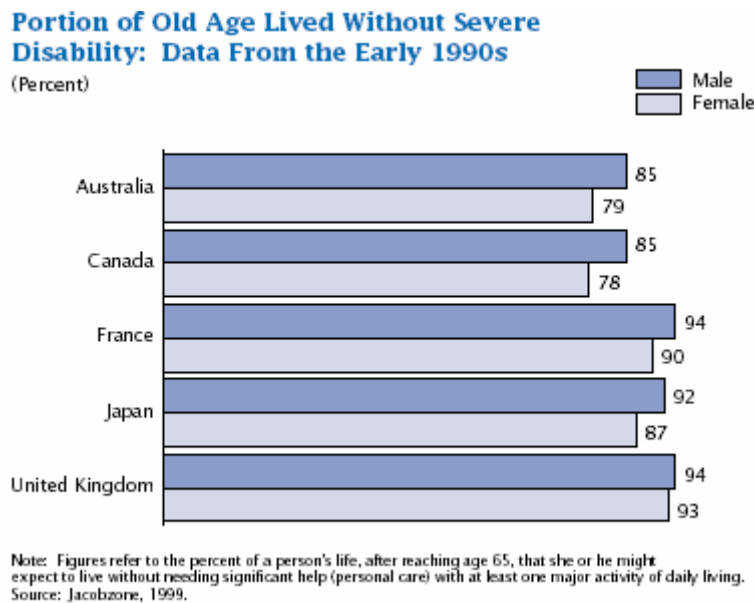


Figure 16: Percentage of Healthy Life over 65¹

The market is moving to home-based health care and other supportive services to help older Americans live safely and comfortably in their homes. The home modifications market is large and growing. (*Builder*, February 2000) An AARP survey showed that 73% of Americans surveyed aged 55 and older “expect to always live in their current residence.” It seems clear that most elderly people want to live out their

¹ Kevin Kinsella and Victoria Velkoff, “*An Aging World: 2001*”, U.S. Census Bureau, (November 2001).

days in their own homes. Today, 6.25 million elderly, or about 16% of the population over age 65, are receiving some sort of home care, up from 4.6 million in 1980.

(Hoffman, 2001)

Several alternative approaches are being piloted to provide support to the notion of ‘aging in place’. Blue Shield of California is offering the CareXchange service to Medicare recipients in Southern California. The program brokers the exchange of assistance between seniors themselves. Allowing one senior with a particular skill or ability to trade services with another senior for assistance in an area where they may lack ability. This creates a social community and a cost-effective method of improving basic quality of life. At least four insurance plans in 2001 were offering something called a Social HMO. The Social HMO provides seniors with benefits ranging from home health aides to geriatric-care managers. (Field, 1999)

Whatever the outcomes, industry clearly has room to learn when it comes to helping seniors lead safe and healthy lives. Paul Klaassen is encouraged by developments that expand the viewpoint of mature market businesses. “Now we have a new field, and we have to learn and get our inspiration from other parts of business.” This lesson may be the single most important factor in determining success. Success, of course, can be defined in many ways—the very definition may significantly impact whether a firm will succeed or fail. How does Klaassen define success? Simple: “Happy customers.” (interview with author, 2003)

Conclusions

The path toward profits is strewn with the wreckage of failed business ideas, but as the baby boomers age and more companies are compelled to experiment with older consumers, companies are slowly “getting it”. The development of new tools and marketing devices will help to select and sell products and services that sensitively deal with the needs of tomorrow’s senior citizens. These tools are being built through trial and error on the open market.

To improve the state of business in the mature market, entrepreneurs need to remember lessons learned in addressing other markets. The mature consumer possesses some quirks, but not as many as the stereotypes lead us to believe. Lessons that apply to serving younger markets apply equally to consumers over 55. Just as the “New Economy” turned out to be the old economy, the fundamentals of serving the “Old Consumer” are likely to be the same as the those for the “Young Consumer”. To serve them well, businesses must understand the fundamentals of consumer psychology, which finds its highest use in the development of truly compelling value propositions. That aging consumers are harder to sell should not dissuade industry, but rather should serve as a call to be more responsive to a lucrative market.

Mature market business strategy in the new century must strive to build products and offer services that create compelling value to seniors and their care-giving children. Aluminum tubing must be banished from products as the institutional feeling is replaced by a “gotta have one” sensibility. In the process, the reimbursement economic model must be abandoned—for most businesses in the mature market, red tape leads to red ink.

Neither businesses nor consumers should expect a third-party to pick up the tab on purchases that enhance quality of life. As with any other market segment, when the value is there, older consumers will pay their own money to attain the benefits. What is needed is not an easier way for public and private insurers to reimburse but rather products and services that find eager consumers willing to spend their own wealth.

As the new century enters teenhood, the popular culture will change. Across the developed world, the baby-boomer generation will inspire new perceptions of aging. The “one-foot-in-the-grave” mind-set will give way as people’s thinking moves from aging as a disease to age as the reward for well-lived life. No one will spend good money for a daily reminder of death’s approach. They will spend money to reward themselves for a lifetime of hard work—work that will be more likely to continue into later life.

Businesses that embrace these new realities, choose good role models, and move aggressively into the mature market will have an early advantage. People will appreciate a company that treats them with respect as it helps them to navigate through turbulent life changes. That appreciation will translate into trust. Boomers seeking help to care for their parents today will turn to their trusted partners when the time comes for their own care. Now is the time to begin the search for the silver lining. It is there and it is within reach.

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